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Sowerby, William

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and how to solve it

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# THE INDIAN RUPEE QUESTION,

AND

## HOW TO SOLVE IT.

In a Letter addressed to  
THE RIGHT HON. W. E. GLADSTONE, M.P., &c.

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BY

WILLIAM SOWERBY, Esq.



LONDON :

EFFINGHAM WILSON & CO., ROYAL EXCHANGE.

1892.

" 10, DOWNING STREET,

" WHITEHALL,

" 2nd September, 1892.

" SIR,

" With reference to your letter of the 30th ultimo, Mr. GLADSTONE desires me to say that he can see no objection to your publishing the paper which accompanied your letter of the 25th ultimo.

" I am, SIR,

" Your obedient Servant,

" H. SHAND.

" WM. SOWERBY, Esq."

## THE INDIAN RUPEE QUESTION, AND HOW TO SOLVE IT.

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To the RIGHT HON. W. E. GLADSTONE, M.P., &c., &c., &c.,  
*H.M. First Lord of the Treasury.*

SIR,

This very important subject has now become what may be called "a burning question," imperial in its dimensions and vital in its effects upon the material interests of India.

The whole of the Civil and Military Service of India is becoming disorganised and demoralised by it, and the international trade and commerce of that vast Empire is being most injuriously affected.

Though an abundance of any useful commodity ought never to be regarded as an evil, yet a superabundant supply of silver seems to have reversed Milton's line—

" Evil, be thou my good,"  
into

" Good, be thou mine evil."

It was stated in the House of Commons quite recently that no two individuals were agreed as to the remedy for neutralising the apparent plethora of Silver. One speaker, Sir Richard Temple, declared emphatically that the low price or value of silver had been and still was of the greatest benefit to India, for it had given the ryots or cultivators and others an abundant supply of the very metal they most needed and prized, thereby adding to their prosperity and likewise to the prosperity of the Indian Government.

But this plethora of silver has so depreciated the value of the rupee in proportion to the standard of

English sterling, that it has lessened the actual incomes of the numerous public servants and the whole Anglo-Indian community; so much so as to create the most serious discontent among them, that it amounts to a panic.

The large sum of about sixteen millions sterling which has to be drawn from the Indian revenues to meet home expenditure in the payment of interest on loans, pensions, and such like, is accompanied with such a heavy loss on the exchange as to be most embarrassing to those who have to regulate the finances of the country; so that an actual increase in the Revenue from extended cultivation is barely sufficient to counterbalance this loss of exchange between this country and India.

But the subject, though it is not entirely free from some difficulty, is neither so complicated, mysterious, or impracticable as is generally supposed, when it is carefully examined in a common-sense and business-like manner; on the contrary, the alterations and needful adjustment of the currency can at the present time be more easily carried out than at any previous period owing to the mutations in exchange, which the depreciation on the value of silver or its increased supply has brought about.

#### THE VALUE OF SILVER.

Not very many years ago the value of silver was five shillings per ounce, and, taking the value of gold as compared with silver, it was reckoned at eighty shillings or four pounds sterling per ounce, or in the proportion of one of gold to sixteen of silver. This, of course, was only approximate and conventional.

The value of silver is now only three shillings and fourpence (3s. 4d.) per ounce,\* so that when the ounce of silver was worth five shillings (5s.) the four ounces of silver were equal to one pound sterling, whereas now six ounces are of the same relative value and no more; consequently the twenty shillings currency is really only worth four-sixth parts of a pound sterling, or thirteen shillings and fourpence (13s. 4d.), and the surprise is that there is not a great quantity of spurious coinage (not spurious as regards metal, but spurious as regards

\* Silver is still lower in price within the last few weeks.

mintage) in circulation. The profits would be considerable, but doubtless the risk of detection would also be very great—in fact, certain.

As we all know, the silver coinage in this country is only regarded and accepted as a token, like copper or bronze, and also like cowries in India and glass beads in Africa; they are, however, all limited in amount and quantity as legal tenders of payment.

The depreciation in the previously generally-accepted relative value of silver to gold and other commodities has caused the tribulation and currency disorganisation which has overtaken India and other countries where the currency is chiefly silver. As before stated, Sir Richard Temple has declared that it is not an unmitigated evil, but, on the contrary, it has been a positive benefit to the people if not to the Government of India. This is an important statement, especially coming from one whose vast and comprehensive knowledge of that country and whose great intimacy not only with it and its people, but also its various forms of economic administration, enables him to speak with the authority due to such extensive practical acquaintance and multiplied experience, and this important fact must not be lost sight of when we come to consider the remedy for the present admitted evil, or rather inconveniences due to the depreciation of the value of silver and to the great drawbacks or losses upon exchange. From Sir Richard Temple's point of view the Rupee *per se*, although it has become depreciated externally, in India itself it is of the same current value, or nearly so, as it ever was.

#### THE CAUSE OF DEPRECIATION.

The mutation in the value of silver is like the fluctuations in the value of every other metal or commodity. It is not very many years ago (perhaps thirty years since) when there were very serious apprehensions that gold would become greatly depreciated in its relative value to other commodities, and would especially affect fixed incomes or payments for loans, mortgages, Government securities, pensions, and such-like investments and settled sources of income.

This, it was supposed, would be due to the discoveries of vast new fields of gold in California and Australia. I recollect hearing the late Mr. Fawcett, M.P., Professor

of Political Economy, making a most learned but ugubrious speech upon this same question at the meeting of the British Association at Newcastle-on-Tyne in 1863, but this apprehension speedily passed away, for the gold which was produced was as rapidly absorbed by a more extended utilisation of the metal in a great variety of ways and uses for which it had always been required—namely, money, manufactures, the arts, and ornamentation, &c., &c.; and doubtless in course of time the same process of absorption will take place with regard to silver; domestic articles will then be made of the genuine metal as they are now in some countries where silver is largely produced, rather than of the German imitation.

But let us now carefully examine into the actual, clearly-ascertained, and well-known causes which have led to the depreciation of silver; for upon a thorough understanding of these causes depends the remedy for resuscitating, reviving, and equalising the rate of exchange between India and England.

First, then, there can be no doubt but that the production of silver has been considerably increased. This increase may, however, only be of comparatively temporary duration; for silver mines, like other mines, when they are worked out cease to give further supplies; unlike agricultural products, there can be no reproduction, increased supplies can only be obtained by further discoveries, greater activity in working old mines, or opening out new ones, but even to this there is a limit similar to that of the production of gold; for when the cost of obtaining an ounce of gold increases to a point generally beyond its commercial value, then the mines are no longer worked or worth working. It is a very curious and well-known fact that the production of the gold of the world at large is carried on at a chronic loss; that is to say, if all the mines were credited with the produce of the precious metal, and debited with the actual cost of mining, the balance would be found to be considerably on the wrong side of the account. Such a state of things is hardly ever likely to occur with regard to mining for silver; though it has been predicted that the metal will ultimately be cheaper than tin, and sold by the ton. This, however, may be regarded as a figure of speech and a remote contingency, as the mountain of solid silver which is said to exist in Spain, as I was not long ago seriously assured by a Spaniard, has not yet

been discovered. Increased production is, however, one of the causes of depreciation.

The second reason is due to its decreased utilisation, especially for monetary purposes.

The process of electro-plating, in which a considerable quantity of silver is used, has displaced the use of solid silver for domestic articles, more especially while there was a duty of one shilling and sixpence per ounce on hall-marked silver articles, but which is not now enforced.

As to its uses for monetary purposes the victorious Germans first set the example, so soon as they obtained the two hundred millions of money from France after the Franco-German war. They then determined to establish a gold standard for their currency; previously they had been contented with "*Silber* groschen" and paper money of very small denomination, but having suddenly got possession of such vast wealth, mostly in silver from France, they threw this upon the silver markets of the world. This was gradually but partially absorbed by India, China, and other silver-using countries; this immense amount of silver, however, soon had its effect upon these silver markets, and there then became a plethora of the metal, and a consequent depreciation in its relative market value. What else could possibly follow?

In all violent convulsions, whether national, physical, or moral, it is certain that some great change must follow, hence the Franco-German war may be said to have contributed towards the depreciation on the value of silver, and therefore the alteration in the rates of exchange in all silver-using countries like India, China, and elsewhere.

This sudden increase in the supply of silver bullion the East was able to absorb with benefit, and for a time without any serious disturbing consequences as regards exchange; but concurrently with this increased supply of silver the Government of India at an untimely or inopportune moment determined upon an important measure whereby the demand for silver in India was enormously diminished, in fact they determined to issue a very large amount of rupee paper money, or what are called "Currency notes," and these of as low a denomination as five rupees, at that time the equivalent of ten shillings. These currency notes displaced or disestablished an enormous amount of silver, not merely to the

extent of the number of millions which the notes represented, but a very large multiple thereof, ten crores of rupee notes (ten millions sterling) would probably displace one hundred crores (say one hundred millions sterling) of silver rupee coins. No one need wonder, then, that there was a sudden collapse in the value of the rupee, because it ceased to be required for currency purposes.

This may appear to some who are unacquainted with India to be taking an exaggerated view of the subject, but let us consider how such an estimate is arrived at.

Those who were acquainted with India in the early days before the railways were introduced will remember that what were known as "*treasure parties*" were constantly travelling about from place to place with cart or waggon loads of treasure in charge of a number of sepoys and an officer on special duty—in fact these duties of the officers and men of various regiments frequently formed their chief and only active military duties prior to the Mutiny; this continued even for some years after the railways were introduced. For the purchase of cotton and other produce, merchants used to have waggon-loads of treasure (rupees) sent up country to pay for the same.

Now consider what very large sums in silver rupees were thus constantly in a state of transition, and it will then be understood that the silver rupee, like the mighty dollar, was a matter of very great importance, and in great request, use, and demand all over India.

So much was this the case that up to the time of the Mutiny, and for some considerable time afterwards, the value of the rupee up country was frequently two shillings and twopence (2s. 2d.), and constantly at par, as it is called, or two shillings\*; this was more especially the case during and for a time after the Mutiny, and also during the construction of the railways; silver coinage being wanted for the disbursements of the war expenses and for the payment of the workmen's wages who were employed upon the railways and other public works.

Then, again, there was during and previous to those times a constant demand by the natives for silver and silver money for purposes of **HOARDING** in concealment, often burying the same underground in their houses.

Since 1870, however, when the smaller denominations

\* The real par value of the Rupee was one shilling and twopenne.

of rupee currency notes were introduced, instead of sending up the country waggon-loads of silver treasure at great expense, as was customary, these currency notes have been transmitted through the post-offices and used in payment for all kinds of produce, also for payment of wages, and thus the metallic currency is no longer required or used to the same extent as before their issue.

Furthermore, as currency notes take up less space, and are therefore readily stored away and concealed, silver is no longer required for the purpose of hoarding as before.

Again, the native bankers, "*soucars*," and others no longer keep large supplies of silver as they were formerly accustomed to do, but lock up rupee paper or Government loans instead of silver; which loans, as they yield four or five per cent. interest, are profitable by the accretion of time, whereas silver rupees or silver when stored up within places of safety yielded no profit. The natives and native bankers are quick enough to appreciate this, especially as the loans are guaranteed by a firm and settled Government like the British Government of India; thus a further displacement, disuse, or disestablishment of silver is the result, and it is no longer required for the purposes for which it was formerly used by native soucars, bankers, and others.

Again, there is the further displacement of silver by the introduction of better banking facilities and the substitution of cheques for cash payments, not only in the large Presidency cities, but also up in the Mofussil towns where there are numerous branch banking establishments; thus another very considerable sum in silver rupees is disused or set aside as no longer required, and therefore thrown upon the silver markets.

If we now sum up the result of all these causes which have led to the disuse or disestablishment of silver so far as India is concerned, added to the increased supplies that have been thrown upon the market by increased production and diminished use in Germany and other countries, it will easily be seen what a depreciating effect upon the value of silver must have taken place, and consequently of the deteriorating effect upon the market or currency value of the rupee both internally and externally, but more especially the latter in all exchange transactions.

It is often said "that it is very easy to be wise after

the event," but no one could possibly have foretold or foreseen all these causes acting so uniformly and so simultaneously in one direction.

The next question is who has been benefited by these mutations in the value of silver?

We have, as before said, the opinion of Sir Richard Temple and others that the natives of India have greatly benefited by being supplied with a large quantity of the current coin of India at a much lower price in goods and produce than that which they formerly had to pay; and as the rupee in India is supposed to be of the same value or nearly so in the payment of labourers as it was formerly, they have been able to employ a greater quantity of such labour in cultivation than they did previously; hence the increased area under cultivation, the increased supplies of produce, and the addition to the revenue.

The Government of India has therefore benefited by the increase of revenue owing to the greatly extended area under cultivation, also the greater abilities of the natives to pay the state imposts and taxes.

The Government has further benefited enormously by the increased circulation of the Indian Government Currency Notes, the interest upon which must be very considerable, and would be a great source of profit if issued by any private banker.\*

The Government must also have profited very largely by the suppression of those detachments of Treasury parties—officers and sepoys—who were always on special duty transporting and guarding treasures throughout the country at great expense.

The merchants can usually take very good care of themselves, but both they and the banks (especially the latter) must have been greatly perplexed. They have also suffered somewhat, the merchants by having to pay a greater price in rupees for commodities purchased in India, and they have had to be satisfied with a less price in sterling money for the goods which they have shipped to India, where the rupees for which they were sold were

\* In the United States, bankers, by depositing 90 or 95 per cent. of Government paper in the Government Treasury, can issue notes up to the 100 per cent., on which they realise a large profit over and above the interest which accrues on the Government paper.

exchanged into sterling, while the banks have suffered very severely by the depreciation of the rupee paper loans, in which much of their capital and the deposits of their customers were invested, as witness the Oriental Bank, which has twice failed.

But those who have suffered most are the Indian officers, civil and military, and others in similar positions in India, where their salaries were fixed when the rupee was a little below par—namely, 1s. 10d. to 2s.—which was the normal value of the rupee when the price of silver was 5s. per ounce, and it took only four ounces of silver to make one pound sterling's worth of money.

Whereas now the price of silver being only 3s. 4d. or less per ounce, and it takes six ounces worth of silver to be equal to one pound sterling, the value of the rupee is only 1s. 4d. (that is, sixteen pence), the value of ten rupees, instead of being approximately twenty shillings as before, is now only thirteen shillings and fourpence (13s. 4d.), or a loss of about 32 per cent. Such a loss is not simply distressing or inconvenient, it is absolutely ruinous, and means complete disorganisation and great distress amongst a very large and important section of the Anglo-Indian community.

All that has been stated above might "go without saying," because they are well-known and well-understood facts. But whether all these facts have ever been fairly and carefully stated is uncertain; probably they have not, and they are now only put forward in order to find a simple and practicable remedy.

## THE PROPOSED REMEDY.

Having carefully stated the causes and summed up the consequences of this peculiar concurrence or course of circumstances, which perhaps no one could possibly have foreseen, controlled, or provided against, the vital question is—How can the finances of India be rehabilitated by a readjustment of its currency? for, after all, it is neither more nor less than a plain, straightforward currency question, fortunately with a peculiar absence of complications at the present time.

It seems strange that in a country like England, which is pre-eminent for the commercial knowledge of its experienced financiers, not one has yet been able to



solve this apparently difficult but really simple question, or when we carefully examine into those causes which have been fully set forth in the first portion of this letter, there is nothing either inexplicable or mysterious, on the contrary, the reason why is only too plain and the remedy most obvious. It seems perfectly wonderful that a Royal Commission should have sat so long and been unable to arrive at any definite conclusion on the subject. It is still more astounding that astute financiers like Mr. Goschen (than whom no one could be better qualified or informed) should not be able to perform such a simple operation in finance as to adjust and equalise the English and Indian monetary system so as to make it uniform, for there is nothing heroic required, but a very gradual adjustment like that of the camera in dissolving views, so that as one system or picture disappears gradually the other becomes clearly developed on the canvas.\*

First of all there must be one clearly defined standard of value—a datum or zero point like as there are standards of length, weight, capacity, temperature, &c., for there cannot be two standards, and the standard must be the one least liable to mutation, and no standard can surpass that of the English sovereign. Other countries may fix their own standards, according to their own varied fancies and circumstances, but this must be the standard for all countries in the British Empire. As for a bimetallic standard, that is quite unnecessary. Silver coinage, like copper, is and always has been taken like cowries in India and glass beads in Africa.

If there is to be a standard of value for silver, why not also for copper, or in fact for every other metal or commodity? Engineers say they must have a datum point, be it "*Trinity high-water mark*" or the "*mean sea level*," nor can we run a straight line by taking aim at the corner of a moving cloud. The bimetal idea is

\* Doubtless there are able men in the India Offices who could solve this question; strangely enough it is seldom that anything original emanates from that vast establishment. Everything must originate in India, where the Government instead of "going ahead" usually goes to sleep, unless under the influence of some distinguished Governor-General, like a Dalhousie or a Dufferin; or when Russia flaunts his red flag at John Bull on the Afghan Frontier, like a skilful matador, to divert attention from his real purpose—namely, an outlet for his vast territories in the Persian Gulf, which he is determined and deserves to get if he can, Professor Vambéry to the contrary notwithstanding.

therefore simply too absurd to be thought of besides being unnecessary and inconvenient in every way.

The standard of length in England is the yard, which is of brass, then for feet or inches wood or tape is used, while for multiples we use chains of steel, so with any other standard. In the Portuguese currency they have an imaginary coin called "*reis*," the French have "*francs*," and the Spaniards "*reals*."\*

This important point being settled, the question is how is this standard to be introduced into India with its superfluous silver rupee coinage. Fortunately this can now be more easily and readily accomplished than at any previous period since the issue of currency notes.

The first thing to be done is to call in the rupee currency notes, and to exchange them for sterling notes of the same relative exchange value. At the present the exchange value of the rupee is one shilling and fourpence, it would therefore require fifteen rupees for one pound sterling, and seventy-five rupees for five-pound note sterling, and one hundred and fifty rupees for a ten-pound note, and so on; holders of Indian currency notes to be given sterling notes, that is, paper for paper, only of different denomination, thus would the present Indian currency notes be gradually exchanged for sterling notes.

Then as to the silver coinage, that would remain a subsidiary currency, and as the rupee has sixteen annas and the present value of the rupee is sixteen pence English, the one-anna piece and the penny piece would become synonymous terms—the eight annas being eight-pence, the four annas fourpence, and so on.

By and by the English gold sovereign might be introduced and exchangeable for the sterling note, but it would be some considerable time before this would be required; and it would also be some time before the English shillings and smaller coins could be introduced; as the silver rupees came in they should not be re-issued, but after a while recoined into four and five shilling

\* The Indian Government has been particularly unhappy in its standards. The standard gauge of the Indian railways is 5 ft. 6 ins., which is a break of gauge as between this country (4 ft. 8½ ins.) and India. This has caused great inconvenience and expense, and to make "confusion worse confounded," the metre gauge was at an unhappy moment introduced, which was simple insanity. Vide my evidence before the Committee of House of Commons in 1879.

pieces, so as not to be taken for rupees, as florins might be.

It is true that the sterling notes would be issued at an apparent premium as compared with the Indian currency notes and silver rupees, but then the parties who now hold these notes or silver rupees have been for a very considerable period receiving them at a large discount for payment of their produce, they could therefore well afford to pay a premium for sterling notes.

It would of course take some time before the whole of these currency notes were returned, but on no account should sterling notes be issued of smaller denomination than one pound. This would insure the utilisation of silver for currency purposes and as tokens limiting the legal tender to forty shillings or two pounds sterling as in England.

Meanwhile, as a large number of silver rupees would be tendered in exchange for sterling notes, let them be taken at the same relative value as currency rupee notes, and the silver coined, not into rupees, but into four and five shilling pieces, and this would utilise the large stock of silver as it was brought in.

In addition to this the sovereign could be gradually introduced, always exchangeable for sterling notes or rupee currency notes and silver rupees at their relative value.

The present value of the rupee being one shilling and fourpence, and the rupee being reckoned at sixteen annas (the anna piece is equal to and synonymous with the penny piece), and fifteen rupees, or 240 annas, is equal to one pound sterling, all the subordinate coins—namely, 8 annas = eightpence, four annas = fourpence, and so on; thus the present coinage could be readily used as the subsidiary currency until a new coinage could be introduced and the old rupee completely disestablished.

In calling in the old rupee silver coinage, and turning the same into English money of five-shilling and four-shilling pieces and sixpenny pieces, there would be a great gain to the Government—a profit, in fact, of 6s. 8d. on the 20s., less, of course, seigniorage and the cost of minting. This profit might be utilised in three different ways:—

First, by giving to the banks and others an equivalent amount of shillings' weight for weight less cost of mintage.

Secondly, by using the surplus in buying gold in order to supply a gold coinage.\*

Thirdly, in reduction of the Indian National Debt.

In every case the Indian public would be benefited, and therefore the plan to be adopted might be quite optional.

Concurrently with this disestablishment of the rupee and the currency notes there should be a calling in and paying off of old rupee loans, and giving sterling loans instead, the sterling loans, however, bearing a proportionately lower rate of interest, or taking the nominal loan in rupees at a suitable discount for sterling loans. This operation would in effect be similar to the operation lately performed by the Chancellor of the Exchequer's reduction of the three per cents. to two and one half ( $2\frac{1}{2}$ ) and ( $2\frac{3}{4}$ ) per cent. paper, the holders of such loans to have the option of taking the amounts in silver of the new coinage or sterling notes at the established price of fifteen rupees per pound sterling.

The Government should at the same time enter into an agreement with all the Native States to retire local currency, such as Halli, Sicca, Baroda, and other native coinages.

The Government of India would, by these very simple operations, be enabled to introduce the English sterling £ s. d. for the R. a. p., and as there could and would be no real loss on either side, but a simple exchange of designation, without in any way suddenly or violently disturbing the currency of the country, the question of exchange would soon adjust itself to the altered circumstances; the British officers of the Government would then receive their pay in sterling, which they could remit to England or elsewhere at a moderate charge for such transfer. Their pay in sterling should be calculated at the nominal value of the rupee when their appointments were made and the pay fixed. Perhaps the only sufferers might be the local banks of India, as the cessation of the violent fluctuations of exchange might interfere with their operations, but this would be of short duration.

\* If the Indian Gold mines were more thoroughly worked, they might supply the needful gold coinage. At present they are merely exploiting the fringe of these gold regions. These mines might be worked by Government with convict labour.

The adjustment of the revenue derivable from land, &c., would simply be by taking the value of the rupee in sterling at the period when the settlements were made say 1s. 10d. per rupee. There would need to be tables drawn up as ready reckoners so as to calculate the payments in the new currency arrived at and adjusted by the method indicated.

The sterling bank notes might be prepared in this country, but on tinted paper, and they would probably in a short time become as current here and on the Continent as the English bank note and Australian sovereign are at present.

Thus the great Rupee Question would be finally and satisfactorily settled.

"Not for an age, but for all time."

Your obedient Servant,

WILLIAM SOWERBY,

*Civil Engineer, F.G.S., &c.*

LONDON, August, 1892.

P.S.—Since the above was written, the value of the rupee has become still more depreciated. This, however, need not alter the principle, and shows the urgent need for immediate action. An increased profit might accrue to the Government, but the recent authority to coin silver in Australia will probably increase the demand for that metal, and thus raise its value.—W. S.

**END OF  
TITLE**